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WHAT MAKES FOOD PRICES?

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MARKETING ECONOMICS DIVISION
ECONOMIC RESEARCH SERVICE
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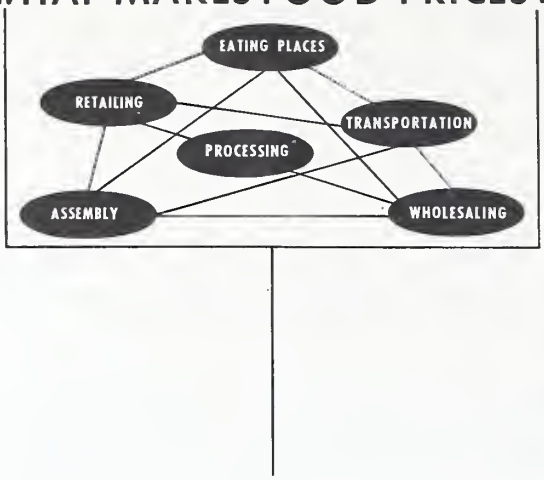
WHAT MAKES FOOD PRICES?



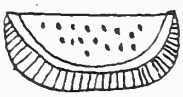
Food prices go up or down for many reasons—some physical like weather, some economic like labor costs, some because of merchandising practices like weekend sales. Here briefly is more about why food prices can fluctuate month by month, week by week, even day by day.

The Wayward Weather

Nearly all consumer goods, from cars to clothespins, are produced indoors on assembly line schedules, come rain or come shine. Food, like houses and a few other commodities, is produced outdoors—at the mercy of the elements.

A long drought, a sudden freeze, a pelting hailstorm and an entire lettuce, orange or other crop can be damaged or even lost. Smaller supplies can mean higher prices.

For example, about a week after a severe freeze destroyed much of the Florida citrus crop not too long ago, the price of a six-ounce can of frozen orange juice in supermarkets went up as much as 15 cents.



The Out-of--Season Season

Today we can buy more foods year round at year-round prices than ever before, thanks to innovations in canning, freezing, dehydration and other ways of preserving foods.

But fresh foods are still most plentiful—and most inexpensive—during the harvest season.

True, lettuce, corn, tomatoes and other fresh fruits and vegetables turn up on the produce counter in February just as they do in August. But they're going to cost more in February.

Why? Because so few parts of the country are warm enough to grow winter crops. For instance, only California, Arizona and Florida produce winter lettuce. So supplies are shorter and prices somewhat higher. Then, too, transportation from these fringe states to the rest of the country adds to the retail price.

The Map That Doesn't Count

Much of our food is produced in the Midwest, which is closer to eastern markets than to those in the West. Consequently, many homemakers seem to think that food prices are higher in the West.

Economists can show that this isn't always true. They compared sales prices of several food items in newspaper ads around the country. On the same day, chicken was cheaper in Denver than in Washington, D.C. Pork chops were advertised at the same price in at least seven cities from New York to Seattle. Chuck roast, blade-in, was advertised at the same price on one weekend in Washington, New Orleans and Seattle.

In general, various studies show that food prices don't vary much nationwide as may have been the case years ago. This, of course, holds true only for the same types of stores. Because of higher overhead costs, prices in small stores tend to be somewhat higher nationwide than in supermarkets.

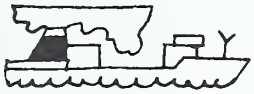
The Genie in the Kitchen

Today one in every three American wives works. Employed or not, homemakers seem to be buying more and more pre-washed, pre-peeled, pre-cooked, pre-packaged products that come in great

variety and are called the convenience foods. By saving the homemaker preparation time, they are in effect putting an extra helper in the kitchen.

But someone somewhere between farm and retail store has done the peeling, washing, cooking and packaging. These services add somewhat to the cost of most convenience foods, compared with their fresh counterparts.

However, economists can show that some convenience foods are actually cheaper than the fresh forms because they're more compact to ship and store and they have a longer shelf life. For example, frozen and canned peas are cheaper than fresh ones.



Those Beans From Brazil

Our morning cup of coffee represents the end of a long journey. Except for Hawaii and Puerto Rico, the U.S. doesn't produce coffee. We import most of it from South America. This means, for instance, that coffee beans grown in Brazil have to be picked and dried and put on ships for the 6,000-or-so-mile trip to our major ports.

All of this adds to the price we pay for a pound of coffee in our food store.

Also, what we pay for coffee is partly fixed by what's happening to coffee supplies—and prices—around the world. During the mid-1950s we paid over a dollar a pound for coffee. How come? Because coffee crops in several countries were smaller than usual. World supplies fell and prices climbed.

The same laws of supply and demand set world prices of cocoa, bananas, tea, spices and other foods we have to import.

Along the same line, the gourmet items, either imported or produced here, usually cost more than our standard fare. Things like smoked salmon, snails and pickled artichokes aren't sold in large quantities. So more of the marketing cost has to be absorbed by each can or jar sold.

The Many Routes To Market

Most foods produced in the United States do a lot of traveling en route from farm to grocery store. Tomatoes grown in our own backyard, so to speak, can travel hundreds of miles to be turned into soup by a food processing firm, only to land in their new form on our own grocer's shelf.

The farmer gets less than 40 cents of every dollar we spend for food at the grocery store. The rest goes not for the food itself but for some service that adds to the value—assembly, transportation, processing, wholesaling or retailing.

Put together, these various costs for marketing foods grown in this country run to about $52 billion a year.

Of this, about 45 per cent goes to pay the 5 million people employed by the food industry. Another 40 per cent goes for packaging, advertising, depreciation and other marketing costs. Transportation accounts for 10 per cent. The remaining five per cent is the food marketing industry's profit.

The Customer's Choice

The American homemaker has veto power over the food industry. If she doesn't like and doesn't buy a product, it vanishes from the shelves.

Today the average supermarket carries 6,000 to 8,000 food items. About 40 per cent have reached the market since 1953; 60 per cent are new since World War II.

Over 5,000 new food items are introduced in a single year. But only 1,500 are accepted for sale by grocers. And of these only 500 survive more than a year.

The price of a new product includes part of the cost to the manufacturer for developing it, testing it, creating recipes to use it, advertising it and similar outlays.

The price per can or box or package tends to drop as sales climb, partly because the initial research costs have been defrayed, partly because regular day-to-day marketing costs can be spread more thinly over the larger volume of the product being sold.

The American Way

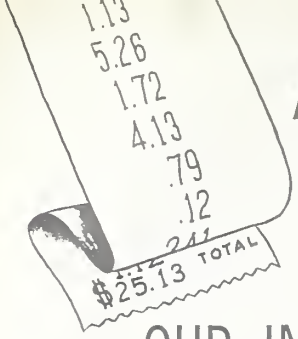
Like the rest of us, the five million Americans who work in the food industry look forward to a better life—a larger home, a college education for their children, more travel, more leisure.

From time to time these aspirations are translated into higher wages. And since wages make up 45 per cent of the cost of marketing food, a penny here, a few cents there are added to the prices we pay in our local food store.

Even then, wages in the food industry run somewhat behind those in most major industries. And food we buy at the grocery still takes less of every retail dollar we spend than the family car and the gasoline to run it.

Over time, food prices have been rising, but at a slower rate than those of many other things we need for everyday living. And, for these reasonable prices, we are provided with food in great abundance, of high quality, in many forms, during more seasons and in convenient and attractive stores.

With so many foods at so many prices to choose from, families at different income levels — young newlyweds, retired couples and all of us in between — can enjoy a variety of nutritious meals every day of the year.



The SIZE of our SUPERMARKET BILL depends on

OUR INCOME

As our incomes go up . . .

We buy . . .

More steaks and roasts

More fruits and vegetables out-of-season

More foods with built-in-maid service

More delicacies

We spend . . .

More total dollars

But a

Smaller percent of our incomes for food

OUR FAMILY'S WANTS AND NEEDS

How much we entertain at home

Our friends

Our children's friends

How many in the family

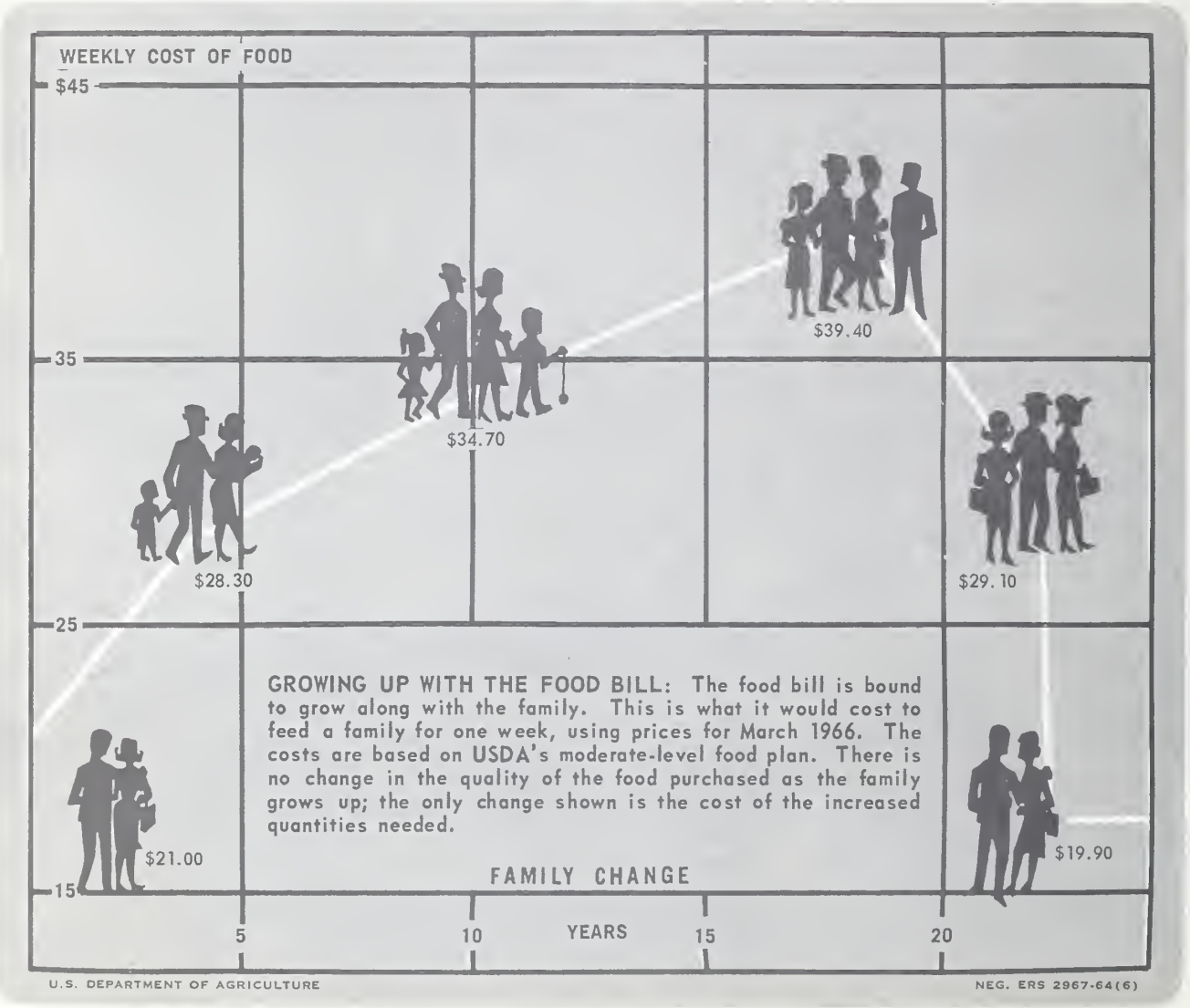
Two, four, six, eight or even more

How old they are

THE FOOD BILL GROWS UP AND DOWN WITH THE FAMILY

OUR "OTHER" PURCHASES

Things that are NOT FOOD, but become part of the FOOD BILL

Toothpaste
Light bulbs
Cigarettes
Paper towels and tissues
Soaps and detergents
Pet foods
Hair sprays and shampoos
Socks and shirts
Beer and wine

These can add up to 20 cents out of each dollar spent at the grocery.